

RECEIVED
EPT. OF TREASURY TOWNSHIP OF SCIOTA
Shiawassee County, Michigan
JUL 20 2004 78-1120
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GENERAL PURPOSE FINANCIAL STATEMENTS
AUDIT & FINANCIAL STATEMENTS
~~AND SUPPLEMENTARY INFORMATION~~

Year Ended March 31, 2004

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Sciota	County Shiawassee
Audit Date March 31, 2004	Opinion Date June 22, 2004	Date Accountant Report Submitted to State: June 22, 2004	

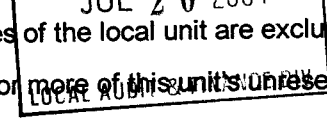
We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- 
- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

June 22, 2004

To the Township Board
Township of Sciota
Shiawassee County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Sciota, Shiawassee County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Sciota's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Sciota, Shiawassee County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Sciota, Shiawassee County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

March 31, 2004

EXHIBIT A

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Group General Fixed Assets</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Agency</u>		
<u>Assets</u>				
Cash in bank	139 120 02	6 577 55	-	145 697 57
Taxes receivable	7 473 85	-	-	7 473 85
Due from other funds	6 577 55	-	-	6 577 55
Land and building	-	-	21 739 52	21 739 52
Equipment	-	-	49 908 55	49 908 55
Total Assets	<u>153 171 42</u>	<u>6 577 55</u>	<u>71 648 07</u>	<u>231 397 04</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	2 323 47	-	-	2 323 47
Due to other funds	-	6 577 55	-	6 577 55
Total liabilities	<u>2 323 47</u>	<u>6 577 55</u>	<u>-</u>	<u>8 901 02</u>
Fund equity:				
Investment in general fixed assets	-	-	71 648 07	71 648 07
Fund balances:				
Unreserved:				
Undesignated	15 847 95	-	-	150 847 95
Total fund equity	<u>150 847 95</u>	<u>-</u>	<u>71 648 07</u>	<u>222 496 02</u>
Total Liabilities and Fund Equity	<u>153 171 42</u>	<u>6 577 55</u>	<u>71 648 07</u>	<u>231 397 04</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B
Page 1

	<u>Governmental Fund Type</u>
	<u>General</u>
Revenues:	
Property taxes	69 403 62
State revenue sharing	131 860 46
Interest	1 167 45
Special assessments	53 550 00
Miscellaneous	<u>1 933 81</u>
Total revenues	<u>257 915 34</u>
Expenditures:	
Legislative:	
Township Board	8 398 06
General government:	
Supervisor	8 521 30
Assessor	8 152 93
Clerk	8 142 77
Board of Review	748 80
Treasurer	10 104 15
Building and grounds	3 778 03
Cemetery	1 906 26
Public safety:	
Fire protection	34 701 81
Ambulance	20 100 00
Planning Commission	2 558 56
Public works:	
Highways and streets	78 908 10
Drains at large	2 199 47
Culture and recreation:	
Library	3 500 00
Other:	
Insurance	6 019 00
Pension	2 584 63
Capital outlay	<u>667 53</u>
Total expenditures	<u>200 991 40</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B
Page 2

	<u>Governmental Fund Type</u>
	<u>General</u>
Excess of revenues over expenditures	56 923 94
Fund balance, April 1	<u>93 924 01</u>
Fund Balance, March 31	<u><u>150 847 95</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

Year Ended March 31, 2004

EXHIBIT C
Page 1

	<u>General Fund</u>		<u>Over (Under) Budget</u>
	<u>Budget</u>	<u>Actual</u>	
Revenues:			
Property taxes	80 187 82	69 403 62	(10 784 20)
State revenue sharing	131 217 00	131 860 46	643 46
Interest	1 500 00	1 167 45	(332 55)
Special assessments	50 850 00	53 550 00	2 700 00
Miscellaneous	<u>3 190 00</u>	<u>1 933 81</u>	<u>(1 256 19)</u>
Total revenues	<u>266 944 82</u>	<u>257 915 34</u>	<u>(9 029 48)</u>
Expenditures:			
Legislative:			
Township Board	9 500 00	8 398 06	(1 101 94)
General government:			
Supervisor	9 205 32	8 521 30	(684 02)
Elections	5 150 00	-	(5 150 00)
Assessor	9 900 00	8 152 93	(1 747 07)
Clerk	10 530 32	8 142 77	(2 387 55)
Board of Review	1 000 00	748 80	(251 20)
Treasurer	10 940 32	10 104 15	(836 17)
Building and grounds	11 050 00	3 778 03	(7 271 97)
Cemetery	2 000 00	1 906 26	(93 74)
Public safety:			
Fire protection	34 000 00	34 701 81	701 81
Ambulance	23 050 00	20 100 00	(2 950 00)
Planning Commission	8 150 00	2 558 56	(5 591 44)
Public works:			
Highways and streets	154 707 17	78 908 10	(75 799 07)
Drains at large	4 000 00	2 199 47	(1 800 53)
Culture and recreation:			
Library	3 500 00	3 500 00	-
Other:			
Insurance	6 800 00	6 019 00	(781 00)
Pension	3 500 00	2 584 63	(915 37)
Capital outlay	<u>1 000 00</u>	<u>667 53</u>	<u>(332 47)</u>
Total expenditures	<u>307 983 13</u>	<u>200 991 40</u>	<u>(106 991 73)</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

Year Ended March 31, 2004

EXHIBIT C
Page 2

	<u>General Fund</u>		<u>Over (Under) Budget</u>
	<u>Budget</u>	<u>Actual</u>	
Excess (deficiency) of revenues over expenditures	(41 038 31)	56 923 94	97 962 25
Fund balance, April 1	<u>93 924 01</u>	<u>93 924 01</u>	<u>-</u>
Fund Balance, March 31	<u>52 885 70</u>	<u>150 847 95</u>	<u>97 962 25</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Township of Sciota, Shiawassee County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Sciota. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Joint Venture

The Township is a member of the LSW Emergency Services Authority. The Township appoints one member to the joint venture's governing board, which then approves the annual budget. Financial information of the joint venture may be obtained from the Authority at 607 E. Grand River in Laingsburg, Michigan.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

Governmental Fund

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

Account Group

General Fixed Assets Account Group

This account group presents the fixed assets of the local unit utilized in its general operations.

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2003 tax roll millage rate was 1.8248 mills, and the taxable value was \$38,038,701.00.

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

Fixed Assets

Purchases of fixed assets for all funds are recorded as expenditures in their respective funds at the time of purchase. They are also recorded at cost in the General Fixed Assets Group of Accounts which is required by generally accepted accounting principles.

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 2 – Deposits and Investments

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u><u>145 697 57</u></u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>45 697 57</u>
Total Deposits	<u><u>145 697 57</u></u>

The Township of Sciota did not have any investments as of March 31, 2004.

Note 3 – Changes in General Fixed Assets

A summary of the changes in general fixed assets follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land and building	21 739 52	-	-	21 739 52
Equipment	<u>49 241 02</u>	<u>667 53</u>	<u>-</u>	<u>49 908 55</u>
Totals	<u><u>70 980 54</u></u>	<u><u>667 53</u></u>	<u><u>-</u></u>	<u><u>71 648 07</u></u>

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>6 577 55</u>	Current Tax Collection	<u>6 577 55</u>

Note 5 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 6 – Pension Plan

The Township has a defined contribution pension plan covering substantially all full time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2004, was \$2,584.63.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Sciota does not issue building permits. Building permits are issued by the County of Shiawassee.

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 9 – Budget Variances

During the fiscal year ended March 31, 2004, Township expenditures exceeded the budgeted amount in an activity as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Excess Expenditures</u>
General Fund:			
Activity:			
Fire protection	34 000 00	34 701 81	701 81

Note 10 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2004

EXHIBIT D
Page 1

Township Board:	3 028 48
Salaries and per diem	427 23
Payroll taxes	2 246 50
Attorney	1 800 00
Audit	799 85
Membership and dues	96 00
Miscellaneous	<u>8 398 06</u>
Supervisor:	6 557 40
Salary	1 297 92
Deputy	665 98
Miscellaneous	<u>8 521 30</u>
Assessor:	7 072 00
Contracted services	1 080 93
Miscellaneous	<u>8 152 93</u>
Clerk:	6 557 40
Salary	1 297 92
Deputy	287 45
Miscellaneous	<u>8 142 77</u>
Board of Review	<u>748 80</u>
Treasurer:	6 557 40
Salary	1 297 92
Deputy	2 248 83
Miscellaneous	<u>10 104 15</u>
Building and grounds	<u>3 778 03</u>
Cemetery:	1 906 26
Repairs and maintenance	<u>1 906 26</u>
Fire protection:	34 701 81
Contracted services	<u>34 701 81</u>

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2004

EXHIBIT D
Page 2

Ambulance	<u>20 100 00</u>
Planning Commission	<u>2 558 56</u>
Highways and streets: Contracted services	<u>78 908 10</u>
Drains at large	<u>2 199 47</u>
Library	<u>3 500 00</u>
Insurance	<u>6 019 00</u>
Pension	<u>2 584 63</u>
Capital outlay	<u>667 53</u>
Total Expenditures	<u>200 991 40</u>

TOWNSHIP OF SCIOTA
Shiawassee County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended March 31, 2004

EXHIBIT E

	<u>Balance</u> <u>4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/04</u>
<u>Assets</u>				
Cash in Bank	<u>6 108 82</u>	<u>834 825 32</u>	<u>834 356 59</u>	<u>6 577 55</u>
<u>Liabilities</u>				
Due to other funds	6 108 82	111 861 24	111 392 51	6 577 55
Due to other taxing units	<u>-</u>	<u>722 964 08</u>	<u>722 964 08</u>	<u>-</u>
Total Liabilities	<u>6 108 82</u>	<u>834 825 32</u>	<u>834 356 59</u>	<u>6 577 55</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

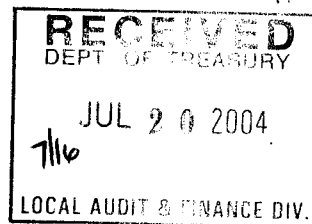
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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

June 22, 2004

To the Township Board
Township of Sciota
Shiawassee County, Michigan



We have audited the financial statements of the Township of Sciota, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Sciota in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Township Board
Township of Sciota
Shiawassee County, Michigan

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Township Board
Township of Sciota
Shiawassee County, Michigan

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of Sciota will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants